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SUBJECT: YEMEN INPUT FOR FOAA-08 REPORT

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SUMMARY

¶1. In response to reftel, Post's input for the FY 2008 Department of State, Foreign Operations, and Related Appropriations Act (FOAA-08) report follows.

¶2. The budget is made public in Yemen through written publications, the mass media and the internet. Nevertheless, many observers believe that the ROYG budget is plagued by a lack of transparency in allocations to line ministries and also in the phenomena of supplemental budgets. In order to improve transparency, in 2006 the ROYG Ministry of Finance embarked on a multi-donor-financed Public Finance Management Reform Agenda. END SUMMARY.

LIMITED PUBLIC DISCLOSURE OF BUDGET

¶3. Articles 61, 73, and 87 of the Yemeni Constitution address fiscal processes within Yemen. The Yemeni fiscal year lasts from January 1 to December 31. A national committee chaired by the Prime Minister and composed of members from the Ministry of Finance, Ministry of Planning and International Cooperation, Ministry of Oil, Customs Authority, Tax Authority and Central Bank, is responsible for devising the budget. The committee then submits the budget to the Cabinet for approval, which in turn submits it to the Parliament by November for final approval. Parliament does not have the power to amend the proposed budget, only to approve or reject it. The budget requires a majority vote from Parliament of 51 percent (i.e. 151 votes) in order to pass. If the budget is not approved before the new fiscal year, the previous budget is enacted until such time as the new one is approved. If the budget is passed, information about it (both projected revenues and expenditures) is advertised in bulletins, local newspapers and broadcast on radio and television stations and on the internet.

¶4. The Ministry of Finance controls the actual disbursement of the budget through the Central Bank of Yemen. Some payments to line ministries (ministries other than the Ministry of Finance) are made on a monthly basis and other payments are made on a quarterly basis. All revenues generated from line ministries and revenue agencies, including the Oil Ministry, are transferred to a single Central Bank of Yemen Consolidated Fund. In a March 5 meeting with Econoff, Deputy Minister of Finance for the Budget Fadhl Al-Shoaiby said that the Ministry of Finance (MOF) publishes 22 volumes of budgetary statistics during the fiscal year which are available to the public upon request. He added that the MOF submits quarterly, semi-annual and

annual reports on the budget to the Shura Council, Parliament and Central Organization of Control and Audit (COCA). Under Finance Law 1990 (amended 1999), the MOF is required within nine months of the close of each fiscal year (i.e. September) to submit accounts showing the ROYG's financial position to the Cabinet and Parliament.

PERSISTENT LACK OF FISCAL TRANSPARENCY

¶5. There has been intense public debate about the level of transparency in the Yemen national budget. Yemen has not volunteered for the IMF to report on the country's compliance with standards and codes covering fiscal transparency. Many believe that Yemeni laws governing the public disclosure of revenues and expenditures of the national budget are not adequately implemented or enforced. For example, the amounts earmarked for a particular ministry, like education, in the national budget may not be the amounts actually allocated. Line ministries are forced to bargain for every expenditure, and perhaps bribe or otherwise bypass MOF officials stationed in the line ministry.

¶6. Parliament has no control or oversight over the budget once it is approved. Parliamentarians, in general, lack the basic skills and knowledge to effectively review and evaluate the national budget. Two budgets actually exist in Yemen, a public budget released on January 1 and a supplementary budget released at the end of the year. Supplementary or "hidden" discretionary budgets may make up 50 percent of the value of the public budget. In February 2007, a controversy erupted when the media discovered that the ROYG underreported oil revenues by USD 1.36 billion. (Note: Oil constitutes 70 percent of national revenues. End note). According to many observers, the "extra" revenues finance special interests (including the military, tribal sheikhs and powerful businessmen) through supplementary budgets.

GOVERNMENT AND DONOR EFFORTS TO INCREASE TRANSPARENCY
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¶7. In order to reduce corruption and increase transparency, in 2006 the ROYG embarked on a series of economic and political reforms under the National Reform Agenda (NRA). The NRA focuses on increasing political participation, improving governance, fighting corruption, enhancing public administration and improving the business enabling environment. In the field of anticorruption, the Parliament passed a financial disclosure law in July 2006 which aims to enhance transparency and accountability of ROYG agencies and officials and to upgrade the stature of the civil service at large by enacting mechanisms that ensure the protection of public funds. In July 2007, the ROYG established an 11-member Supreme National Authority for Combating Corruption (SNACC). In order to increase transparency in the oil and gas industry, the ROYG joined the Extractive Industries Transparency Initiative (EITI) in March 2007 and established a multi-stakeholder EITI committee in August. (Comment: The level of effectiveness and implementation of these programs remains to be seen. End Comment.) The ROYG Ministry of Civil Service has undertaken a Civil Service Modernization Program. Since implementation begun in 2007, the program has eliminated thousands of "ghost workers" or "double dippers"(i.e., where one person holds multiple jobs and receives multiple salaries) through the issuance of biometric identity cards and the creation of a civil service identification system.

¶8. In the field directly related to implementation of the national budget, the Ministry of Finance signed a Public Finance Management (PFM) Reform Agenda Partnership Agreement and Action Plan in May 2006. A number of bilateral and multilateral donors are involved in the implementation of PFM reform, including DFID, the Dutch, GTZ, UNDP, the World Bank and the USG. PFM reform has focused on a) improving policy prioritization and budget decision making and budget preparation; b) improving national budget execution management systems; c) enhancing control and financial

accountability; d) improving bidding and procurement systems laws, and e) improving the efficiency and skills of public finance workers and auditors. PFM activities have included the establishment of an Accounting and Financial Management Information System (AFMIS) within the Ministry of Finance, an assessment financed by the World Bank on Public Expenditure and Financial Accountability (PEFA), preparation of a Medium Term Expenditure Framework (MTEF) and development of the capacity of the Central Organization of Control and Audit (COCA).

¶9. In a February 12 meeting, the PFM Donor Group opined that much work still needs to be done, donor coordination is fragmented and there has been an absence of strong leadership from the Ministry of Finance to drive PFM reforms forward. The MOF also complained that there was a lack of coordination between the MOF and line ministries on PFM reform issues. The MOF stated that PFM reform maintains too much of a focus on the MOF and not enough focus on the line ministries.

¶10. AmEmbassy Sanaa has actively promoted fiscal transparency and good governance through several projects. USAID, through an anti-corruption LSGA grant, is developing the capacity of the newly formed SNACC. The State Department's MEPI Program has provided technical assistance to the ROYG for drafting the public procurement law. (Note: The level of effectiveness of these programs in promoting fiscal transparency of public revenues and expenditures remains to be seen. End note.)

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